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INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

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TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

SCI-06 DRC-01 /182 W

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R 171500Z JAN 74

FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC 1285

INFO USEC BRUSSELS 607

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY OSLO

OECD PARIS 1583

AMEMBASSY COPENHAGEN

UNCLAS SECTION 1 OF 2 STOCKHOLM 0199

E.O. 11652: N/A

TAGS: ENRG, EFIN, SW

SUBJECT: ENERGY: SWEDISH ECONOMIC POLICY AND OIL

REF: STOCKHOLM 163 (NOTAL)

SUMMARY: AS REPORTED IN REFTTEL, GOS HAS ADOPTED VERY CAUTIOUS APPROACH TO PROBLEMS CAUSED BY OIL SHORTAGE. GOVERNMENT IS APPARENTLY PLAYING FOR TIME, HOPING THAT ENERGY PICTURE WILL CLARIFY BEFORE TAKING HARD FISCAL AND MONETARY DECISIONS. THIS ATTITUDE HAS COME UNDER ATTACK FROM SOME OF SWEDEN'S LEADING ECONOMISTS. GUNNAR ELIASSON, CHIEF ECONOMIST FOR FEDERATION OF SWEDISH INDUSTRIES, AND ASSAR LINDBECK, SWEDEN'S MOST RESPECTED ACADEMIC ECONOMIST, BELIEVE PROBLEMS ARE MANAGEABLE PROVIDED SOUND POLICY DECISIONS ARE TAKEN AND IMPLEMENTED. ELIASSON'S MAIN POINTS, TAKEN FROM ARTICLE IN BUSINESS WEEKLY AFFARSVARLDEN-FINANSTIDNINGEN OF JANUARY 16, ARE PERTINENT

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TO GENERAL ENERGY PROBLEM AND ARE REPORTED BELOW. END SUMMARY

1. HIGHLY UNSATISFACTORY TO HEAR IN MIMEOGRAPHED PREAMBLE TO BUDGET THAT WE KNOW TOO LITTLE TO BE ABLE TO DO ANYTHING AT MOMENT SO LET US WAIT AND SEE. WE ALWAYS KNOW TOO LITTLE. MOREOVER, I PERSONALLY BELIEVE THAT WE KNOW MUCH MORE THAN MIMEOGRAPH SEEMS TO SAY.

2. THE "PROBLEM" FOR 1974 WILL PRESUMABLY NOT BE AVAILABILITY BUT PRICE OF OIL. DISREGARDING ACTUAL AVAILABILITY SITUATION ENTIRELY, ATMOSPHERE OF "CRISIS" WHICH HAS BEEN CREATED COULD HAVE FAR-REACHING EFFECT ON DEMAND SITUATION IN SWEDEN AND IN FOREIGN MARKETS. MOST NATURAL CONSEQUENCE OF THIS IS THAT INVESTMENT DECISIONS OF FIRMS AND HOUSEHOLDS WILL BE POSTPONED UNTIL SITUATION HAS CLARIFIED.

3. CONCLUSION I DRAW AT PRESENT TIME IS, THEREFORE, THAT OIL WILL BE AVAILABLE IN AMOUNTS WE REQUIRE IN 1974 IF WE ARE PREPARED TO PAY FOR IT, AND AT PRICES THAT WILL PRESUMABLY BE SOMEWHAT HIGHER THAN, THOUGH NOT BY MUCH, PRICES WE WILL HAVE TO PAY IN LONGER PERSPECTIVE.

4. SIMPLEST WAY OF MANAGING UNAVOIDABLE CHANGE WOULD PRESUMABLY BE TO ALLOW PRICE INCREASES TO HAVE FULL EFFECT IMMEDIATELY, WHICH WOULD, SO TO SPEAK, HAVE SAME EFFECT AS A GENERAL AND PROPORTIONAL TAXATION OF HOUSEHOLDS. THERE ARE ALSO MORE DEVIOUS WAYS OF ABSORBING INCREASES: BY TAXATION, SUBSIDY, PRICE EQUALIZATION, PRICE CONTROLS, AND RATIONING. BUT RISK HERE IS THAT WE MAY NOT KNOW WHAT WE ARE DOING. IT WOULD BE MOST REGRETTABLE IF WE TRIED TO KEEP PRICE INCREASES AWAY FROM US, EITHER CONSCIOUSLY OR UNCONSCIOUSLY, WITH BLUNT TOOLS OF A REGULATORY APPARATUS. WERE WE TO DO SO, WE WOULD BE RUNNING RISK OF NOT GETTING OIL WE WANT AT PRICES THAT ARE GOING TO PREVAIL IN FUTURE, AND VERY PHYSICAL SHORTAGE THAT IS SUBJECT OF CONCERN ON EVERY PAGE OF THE MIMEOGRAPH COULD OCCUR. I HAVE A SUSPICION THAT THIS WORST OF ALL SOLUTIONS IS JUST WHAT RESPONSIBLE AUTHORITIES HAVE SYMPATHY FOR.

5. NEXT STEP IN OUR ASSESSMENT OF ENTIRE PROBLEM IS QUESTION AS TO WHETHER AN IMMEDIATE ABSORPTION OF PRICE
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INCREASES CAN BE EQUATED WITH AN IMMEDIATE ABSORPTION OF ENTIRE REDUCTION IN OUR STANDARD OF LIVING WHICH WILL BE NECESSARY. THIS NEED NOT BE THE CASE, WHICH BRINGS US TO QUESTION OF STIMULATION POLICY, BALANCE OF PAYMENTS, AND TEMPORARY CREDIT FINANCING OF A REAL CONSUMPTION WHICH DOES NOT FULLY TALLY WITH SWEDEN'S PRODUCTION RESOURCES.

6. INTERNATIONAL BUSINESS ACTIVITY INDICATIONS IN THE AUTUMN POINTED MORE OR LESS IN SAME DIRECTION: TOWARD A DAMPENING OF BOOM, WITH CONSEQUENT LOWER LEVELS OF BUSI-

NESS ACTIVITY AND EMPLOYMENT. SWEDISH PICTURE WAS MORE POSITIVE, THOUGH SPOTTY.

7. HOWEVER, IT IS PRETTY CLEAR THAT PRICE INCREASES ALONE AND GENERAL UNCERTAINTY ABOUT OIL SITUATION WILL STRENGTHEN AND ACCELERATE WEST EUROPEAN DOWNTURN. FOR SWEDEN, THIS MAY MEAN THAT RELATIVELY FAVORABLE BUSINESS ACTIVITY PICTURE WE HAD LAST AUTUMN ABOUT FIRST HALF OF 1974 WILL BE CHANGED, FROM DEMAND SIDE, INTO TOO EARLY A DOWNTURN, WHICH IN ITSELF WILL BRING A LOWER CONSUMPTION OF OIL. I BELIEVE THIS IS PERSPECTIVE WE MUST RECKON ON FOR SPRING. UNPLEASANT THING ABOUT IT IS THAT IF OTHER RESPONSIBLE AUTHORITIES IN WEST EUROPEAN COUNTRIES FEEL THE SAME, WE MAY RAPIDLY FIND OURSELVES IN A DEPRESSIVE DEMAND SITUATION WHICH IN NO WAY CAN BE DEFENDED BY REFERRING TO ANY REAL SHORTAGE OF OIL. IT IS PRACTICALLY IMPOSSIBLE TO SAY HOW BIG THIS RISK IS.

8. ON POSITIVE SIDE IS FACT THAT WE CAN DO SOMETHING ABOUT SITUATION BY MEANS OF PERCEPTIVE AND DARING ECONOMIC POLICY DECISIONS. AND WE SHOULD NOT EXCLUDE POSSIBILITY OF THERE BEING SOME FORM OF AUTOMATIC BUSINESS ACTIVITY BACKLASH. AFTER ALL, SITUATION IN WESTERN EUROPE AND IN SWEDEN IN PARTICULAR IS STILL TO BE CHARACTERIZED AS AN UNFINISHED BOOM.

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9. WHAT PRICE INCREASES CAN WE EXPECT? LET US ASSUME THAT LONG-TERM PRICE OF CRUDE AT IMPORT LEVEL WILL BE ABOUT DOUBLE 1973 LEVEL. IN 1968, REFINED PETROLEUM PRODUCTS ACCOUNTED DIRECTLY AND INDIRECTLY TO AN ESTIMATED 3 PERCENT OF SWEDISH PRIVATE CONSUMPTION. SIMPLE CALCULATION LEADS TO CONCLUSION THAT THERE WOULD BE AT LEAST AN INCREASE OF 3 PERCENTAGE UNITS IN CONSUMER PRICE INDEX...THOUGH 3.5 PERCENT WOULD BE A BETTER GUESS OF TOTAL EFFECT. THIS IS TO BE COMPARED WITH THE 2 PERCENT INDICATED IN MIMEOGRAPH, A FIGURE I JUST DON'T UNDERSTAND HOW THEY GOT. INDUSTRY FEDERATION ESTIMATED 1974 INFLATION RATE AT SOMEWHAT MORE THAN 8 PERCENT. MERELY ADDING ABOVE EFFECT OF OIL PRICE INCREASES ALONE, 1974 WILL HAVE AN INFLATIONARY RATE OF AT LEAST 10 PERCENT. I FULLY UNDERSTAND THAT FINANCE MINISTER WOULD LIKE TO TRY EVERYTHING IN HIS POWER NOT TO SEE THAT FIGURE BECOME REALITY IN 1974--THAT HE WOULD RATHER BARGAIN WITH INTERNATIONAL OIL SUPPLIERS AND WOULD NOT BE AVERSE

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TO INVITING PRICE AND CARTEL OFFICE AND RATIONING PEOPLE TO PARTICIPATE IN HIS ECONOMIC POLICY DECISIONS.

10. SO RISK IS THAT WE WON'T GET QUANTITIES OF OIL WE WANT AND THAT WE WILL BRING UPON OURSELVES AGAIN A SELF-INFLICTED DOWNTURN WITH INCREASED UNEMPLOYMENT. IF WE ARE GOING TO AVOID THESE EXTRA STRESSES AND STRAINS, ONLY STRAIGHTFORWARD THING TO DO IS TO STIMULATE DOMESTIC DEMAND AS RAPIDLY AS WE CAN WITH AS MANY MEANS AS WE CAN IN ORDER TO MAINTAIN PRODUCTION.

11. IF WE ARE CAREFUL AND JUST WAIT, IT IS PROBABLY THAT WE WILL INCREASE OUR UNEMPLOYMENT WITHOUT STOPPING INFLATION TO ANY APPRECIABLE EXTENT. PERHAPS WE WOULD REIN IN THE DEFICIT IN OUR BALANCE OF PAYMENTS SOMEWHAT. BUT IF WE COULD BE DARING, I.E., STIMULATE THE ECONOMY, THEN WE MIGHT BE ABLE TO BRIDGE A PROBABLE RECESSIONARY PERIOD DURING SPRING. IF WE ARE WRONG IN OUR ASSESSMENT WE WON'T MANAGE TO DO THIS, BUT IT WOULD ONLY COST ONE EXTRA INFLATIONARY PERCENTAGE UNIT, WHICH IS TO BE SEEN AGAINST MORE THAN TEN UNITS THAT WE ARE GOING TO HAVE ANYWAY.

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